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PRINCIPLES AND
FACTS



News and Views

from the Farm Management Staff

UNITED STATES DEPARTMENT OF AGRICULTURE
FEDERAL EXTENSION SERVICE
Division of Agricultural Economics Programs
Washington 25, D. C.

February 13, 1957

Dear Farm Management Extension Workers:

Loan Money for Farmers

As you know, farmers are having to pay somewhat higher interest rates on virtually all loans whether for short-term production, intermediate capital, or long-term real estate mortgages. Like any other price, interest rates are the result of the operation of the old law of supply and demand.

Our booming economy has been almost ravenous for liquid funds to be used in building new production plants, and in financing improvements and additions to old ones, for home building, for road, school and other public improvements, and a still growing volume of consumer purchases of autos and home appliances.

Funds to be used in making loans must come from savings or from expansion of credit by commercial banks. The savings may be those of individuals deposited with financial institutions, the reserves of various insurance companies including retirement and social security funds, reserves, and other undistributed profits of commercial corporations, various types of trust funds and others. The rate of saving in recent years has dropped from nearly 8 percent to a little over 6 percent of personal income, though this still is very considerably higher than in the years immediately following World War II.

The over-all expansion of credit through commercial banks is controlled by the Federal Reserve System, largely through the exercise of three powers, (1) changes in the required reserves for member banks, (2) open market operations in buying and selling Government obligations, and (3) the rediscount rate charged on loans. The Federal Reserve has been endeavoring to help stabilize the economy including the general price level by restraining the expansion of, though not reducing, the volume of bank credit.

This has meant that most lenders are having to pay more for the funds they loan. Many commercial banks have returned to the practice of paying interest on certain of their deposits, and savings institutions of various types have upped their payments to savers. The Federal Land Banks put a rate of $4\frac{1}{8}$ percent on the issue of 15-year Consolidated Bonds they sold, dated February 15, 1957, while in 1945 they were able to sell 10-year bonds at $2\frac{1}{4}$ percent. In January the Federal Intermediate Credit Banks' debentures carried a rate of $3\frac{7}{8}$ percent while in August and September 1954 they sold issues carrying a 1.2 percent rate.

Of course, these higher cost funds must carry a higher rate when advanced to the farmer. Production Credit Associations getting FICB money are now charging 6, 6-1/2, or even 7 percent instead of the 5 percent used by most during World War II. All of the Federal Land Banks are now writing their long-time amortized loans at 4-1/2 or 5 percent instead of the 4 percent that all used in the 1940s. Loans from life insurance companies now are usually at 5 percent and commercial banks are getting 6 to 7 percent even in the good farming areas.

A Money Market Committee in the Farm Credit Administration forecasts continued fluctuations in the cost of both long- and short-term funds. It suggests, however, that market interest rates are likely to stay nearer recent levels than to return to the much higher rates of the 1920s or the markedly lower costs of the early 1940s.

An interesting viewpoint of what this means to the farmer is included in the October issue of Farm News published by the Federal Reserve Bank of Minnesota. This article points out that although the present tight money policy with accompanying higher interest rates results in an increased cost of the farmer's borrowed money, he is penalized less than he benefits from the Government's efforts to curb inflation. The article continues "..... Tighter money -- as indicated by higher interest rates -- helps to hold farm costs down as prices of equipment and manufactured supplies are discouraged from rising.

"Under present circumstances the alternative to tighter money and higher rates is to allow credit to expand with little restraint. At a time when industry is already producing at or near capacity, this would pour additional purchasing power into our economic system -- but without any compensating increase in the supply of goods available. Such a situation leads directly to inflation -- '..... too many dollars chasing too few goods.'

"The resulting price rise would undoubtedly be reflected in higher costs of farm machinery, supplies, and a great many other items which farmers purchase directly either for operating purposes or for family living. There have been some increases in these costs despite the restraining hand of current monetary policy. Were money allowed to expand more freely, price rises would undoubtedly be much sharper and more costly to farmers than they now are.

"In effect, farmers are paying a very small price -- in the form of slightly higher interest rates for the money they may borrow -- in return for a policy which helps materially to hold the line on many important operating costs. The higher rates undoubtedly save farmers many times more money by holding the line on these prices than it has cost them directly in higher interest rates."

Work of the Production Economics Research Branch of the United States Department of Agriculture Strikes at Important Problems of Farm People

The research activities of the PERB of Agricultural Research Service have been undergoing some expansion. Some of this increased research is at the national level, but much of it will be in cooperation with State experiment stations. This additional research should make a significant contribution to the information that extension will have available to serve farm people. We will attempt in this and the next letter or so, to indicate some of the major lines of research under way. In this letter we will summarize new research relative to the Rural Development Program and Great Plains Problems.

Research Related to Rural Development

With needs of the Rural Development Program as the immediate incentive, some significant new research is being undertaken by the Production Economics Research Branch of ARS. Nineteen States are involved in one or more of the cooperative projects.

Lines of investigation include:

1. Capital, land, and other resource requirements for operator income levels of \$2500 and \$3500 for selected types of farms in type-of-farming areas in 6 States -- South Carolina, Tennessee, Oklahoma, Wisconsin, Kansas, and Montana.
2. Part-time and full-time farming possibilities -- Ohio, North Carolina, Tennessee, and South Carolina.
3. A study developing information on the trends in the magnitude of low income farm problems and changes in sizes of farms for the United States, 1930 to date.
4. Analysis of individual farm development experience and problems of 6000 Farmers Home Administration clients by major areas of the United States, covering the period 1946-54.
5. Resource and income surveys in selected areas in 9 States -- New Mexico, Texas, Missouri, New Hampshire, Kentucky, Florida, Michigan, Ohio, and West Virginia. Pilot counties are located in nearly all of these areas.
6. Labor resource and utilization studies in selected areas in 3 States -- Arkansas, West Virginia, and Maryland.
7. Exploratory study of factors affecting rural development and means used in particular areas where low-income farm problems have been acute, and important developments have occurred. Work has been started in Mississippi, Texas, and Michigan.
8. Special study of credit use and financial obstacles to progress in South Carolina.
9. Study of tenure aspects of farm abandonment and consolidation in low-income areas.

Many of the findings will no doubt be very highly useful in rural development in the widest sense of the term. You may want to "tune in" on some of these projects, in which you may have special interests, in their early stages.

Research on Great Plains Problems

Severe prolonged drouth over large sections of the Great Plains has brought the agricultural problems of that region into the spotlight. Currently, and for several years now, the deficiency in precipitation has meant disaster for many farmers. Even in good years -- and in series of good years -- in the past, rainfall, yields, and incomes have fluctuated so as to raise many unique problems of how farmers can best survive and prosper in such a changeable natural environment.

The Production Economics Research Branch of ARS, as part of its Nation-wide program of research, is much concerned with these problems, both as an agency and in its

cooperative work with the States. A number of research projects now under way, or soon to be under way, are pointed specifically at a number of these problems.

1. One group of projects deals with the problems of adjusting the farm business to reduced acreages of wheat. Or, to put it another way, they are exploring the effects on income when alternative enterprises are substituted for wheat. This problem is now under study in Kansas, South Dakota, North Dakota, Oregon, and Montana. In connection with these studies, it is hoped to make some appraisal of the aggregate effects of possible changes in farm organization upon the agriculture of communities in which the farms are located.
2. Another group of studies deals specifically with the economic problems involved in shifting land from crop use to grass and use for grazing. A progress report on one study "Returning Cropland to Grass in East-Central Colorado," by Harry Sitler of ARS, stationed at Colorado A and M College, has been mimeographed. Certain phases of this study were also reported upon in the Proceedings of the Great Plains Agricultural Council, July 1956. The final report is now in preparation. An important variation of this problem is under study in Montana where the focus of analysis is upon the marginal relationships between crop use and range use of land.
3. A third group of studies deals specifically with the problems of risk and uncertainty in Great Plains agriculture. In these, probabilities for achieving various levels of production from different enterprises are being studied with the objective of developing a better basis for making farm organization, management, and financing decisions. In these studies the stabilizing influence of grass and livestock and of various insurance schemes upon Great Plains agriculture will be tested. Work has been started in Montana and studies in other areas are being planned.
4. In addition to such specific studies as the above, the Production Economics Research Branch is planning several surveys in the Great Plains to obtain better statistics on land ownership, the financial situation of farmers, and factors affecting land prices. This is part of a Nation-wide effort to get and keep current statistical information pertinent to American agriculture.

All of you in Great Plains country are acquainted with much of the research that is under way in your State. If you want more information on the new developments discussed above, you can get in touch with PERB folks on your campus. As these various new studies proceed and as results become available you will undoubtedly want to be in touch with them. Altogether, all of us in both research and extension have a mutual interest in everything that will help farmers and those working with farmers in better coping with farm organization and other economic problems in the unique fluctuating natural environment of the Great Plains.

"Material Participation" In Farming for CASI

In cooperation with Social Security Administration an educational leaflet dealing with the landlord's part in material participation is being prepared and should be available in a month or two. It is generally agreed that a landlord is materially participating in farming if he has a rental arrangement that calls for his participation and if he:

1. Works 100 hours or more in a period of 5 weeks or more in producing the farm commodities; or

2. Regularly and frequently makes or takes part in making management decisions substantially contributing to or affecting the success of the enterprise; or
3. Does any three of the following:
 - a. Advance, pay, or stand good for at least half the direct cost of production.
 - b. Furnish at least half the tools, equipment, and livestock used in production.
 - c. Advise and consult with tenant periodically.
 - d. Inspect the production activities periodically; or
4. Does things which, considered in their total effect, show that he is materially and significantly involved in the production of the farm commodities. Such cases may involve various combinations of items listed above. All doubtful cases should be submitted to the nearest district office of Social Security Administration or Internal Revenue Service for advice.

Farm Management Exhibits

From time to time we receive requests from you folks for ideas concerning farm management exhibits for fairs, caravans, farm and home week, etc. Probably the most effective way we can give you assistance in meeting the next opportunity that you have to make such an exhibit is to build a file of those that have been successfully tried. Therefore, we are proposing to make a contract with you. If you will send us the idea that you used successfully for such an exhibit, including the way you visualized it, we will put them together and send them to you. Send along a rough sketch. If everyone sends in one idea, we should be able to assemble a list of successful exhibits that will make you impatient for an opportunity to use them.

You Should See -

Research Needs of Extension - a provocative paper. Manning H. Becker, extension farm management specialist in Oregon, delivered a provocative paper to a joint meeting of the western farm management research and extension regional committees. It isn't every day we get a chance to tell our colleagues in research just what we need from them. We are enclosing a copy for your study.

Report of the Production Economics Research Advisory Committee. The Agricultural Research Service has a committee composed of farmers, land-grant college personnel, business and organizations interested in agriculture, to advise them as to research needed. We thought you would want to see where they think major gaps occur and the priority. A copy is enclosed.

Summary of 1957 Winter Wheat Reserve Sign-Up. We are enclosing copies of a map showing the percent acres in the reserve of estimated winter wheat allotments.

Farm Inheritance Laws in Other Countries. North Central Regional Publication No. 7, University of Illinois, Experiment Station, Bulletin No. 604. This bulletin treats laws of three countries where heirs receive equal portions of farm real estate -- Brazil, France, and pre-communist China. Three countries are considered where exceptional efforts are made to preserve farms from subdivision -- Norway, Switzerland and Germany. In addition, brief comments are offered about the other countries and a concluding statement that ties the discussion in with the situation in the United States.

Michigan State Produces County Agents' Guides in Organizing and Conducting Group Meetings in Farm and Home Development. These publications by Leonard R. Kyle, farm management specialist, should be most useful in improving the effectiveness of agents through group meetings. The first, Agricultural Economics 663, sets up a discussion outline that agents can use with farm families during the series of four meetings. The second, Agricultural Economics 664, suggests a process of organizing and conducting the meetings. This mimeograph includes necessary work forms and materials.

Personnel Changes and Activities

Burt Burlingame, extension economist in farm management, California, has recently gone on a year's leave to take an assignment with the European Productivity Agency of the Organization for European Economic Cooperation. He will serve as consultant in the field of farm management advisory work and will be working in Western European countries with headquarters in Paris.

George A. Ecker has joined the Connecticut extension staff. He will have responsibilities in farm and home planning, social security, farm accounting, and other farm management problems. Mr. Ecker received his masters degree from Connecticut in 1947 and since 1948 has been managing a retail dairy and poultry farm.

Sincerely yours,

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Enclosures